

KENTUCKY COUNCIL ON
POSTSECONDARY EDUCATION



Strengthening Our Capacity to Serve: A Summit on Productivity, Efficiency, and Cost Containment

White Papers & Discussion Notes
for Breakout Session on

Efficient Business Practices

September 13, 2010
Marriott Cincinnati Airport Hotel
Hebron, Kentucky



**Strengthening Our Capacity to Serve:
A Summit on Productivity, Efficiency, and Cost Containment
Institutional Planning Group**

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Robert L. King
President

September 13, 2010

Dear Institutional and Professional Organization Members:

A special thank you is extended to the individuals and groups that spent time over the last several months drafting the white papers and discussion notes for the September 13 Summit on Productivity, Efficiency, and Cost Containment.

As we have all experienced firsthand over the last several years, the austere budget environment demands extra effort and our best ideas in order to produce high-quality graduates, community engagement, and research, all at a lower cost, that will lead to significant improvements in the quality of life and standard of living of all Kentuckians.

The summit is intended to serve both as reminder of the good work we have already done and encourage action on new ideas and innovations moving forward. The summit is not an end, but rather another step in the journey to produce the best educated workforce and citizenry in the nation.

Thank you again for your hard work and continued dedication. We look forward to a series of great conversations.

Sincerely,

A handwritten signature in blue ink that reads "Robert L. King".

Robert L. King
President
Council on Postsecondary Education

A handwritten signature in blue ink that reads "Doug Whitlock".

Doug Whitlock
President
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**Strengthening Our Capacity to Serve:
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Table of Contents

Efficient Business Practices	Page Number
Ideas submitted by the following groups:	
▪ Institutional Chief Budget Officers	1
▪ Institutional Chief Information Officers	5
▪ Distance Learning Steering Team	9
▪ Kentucky Educational Purchasing Cooperative	13
▪ Kentucky Public University Business Officers	19
▪ Kentucky Higher Education Risk Managers	25

CBO Top 10 Areas for Administrative Savings and Efficiencies

1. Expand outsourcing of non-core functions or in-sourcing these functions as self-supporting operations.

All KY institutions currently outsource select non-core functions on campus and/or operate non-core functions as self-supporting enterprises. This approach can result in improved service, cost savings, and better resource consumption decisions on campus. In addition, management focus can be shifted from the more time consuming task of managing complex operations to the less time consuming task of managing contractual relationships. Examples of functions include:

- Bookstore
- Dining Services
- Student Payment Services
- Housing
- IT software / hardware / support / cloud computing / student email
- Campus grounds / maintenance / custodial services
- Payroll services / benefits administration
- Campus fleet

2. Aggressively manage benefit cost while remaining competitive in the labor market for talented faculty and staff. Measures that have been implemented or are under consideration include:

- Health Insurance: self-insurance, transition to more self-directed options such as Health Savings Accounts, campus wellness programs, and increased employee contribution rates.
- Retirement Benefits: movement towards defined contribution plans rather than defined benefit plans and setting university contribution rates at market competitive levels. Currently, most institutions in KY are legislatively restricted in regards to which employees may be offered defined contribution plans.
- Workers Compensation plan: self-insurance option.

3. Reduce procurement cost by directing employees to the most cost effective options available, reducing the administrative costs of procurement, and restricting purchase options available to employees. Approaches include:

- E-Procurement: Employee on-line self-service and automated procure-to-pay processes. Employees are asked to pick from a substantially reduced set of office supply options in exchange for lower rates with vendors.
- Procurement Card restrictions through actions such as reducing the number of procurement cards available, restricting the types of transactions that procurement cards can be used for, and automatically rejecting specific types of procurement card purchases at the point of sale.

CBO Top 10 Areas for Administrative Savings and Efficiencies

- Revised purchasing policies to control costs such as more restrictive discretionary expenditure policies, more restrictive policies for providing meals and refreshments at campus events, etc.
4. Make use of technology to reduce administrative costs by expanding the use of electronic documents and converting manual business process to re-engineered electronic business processes. Examples include:
- Electronic student billing and payment / refunds
 - Employment / applicant tracking systems including electronic communication with applicants and hiring units
 - Document imaging systems for management and retention of all official university records
 - Electronic time clock and attendance management systems
 - Mandatory direct deposit for paychecks and expense reimbursements along with electronic pay stubs and W-2s
 - Employee self-service for online benefit enrollment and updates to personal and tax information
 - Electronic administrative process such as budget transfers, travel reimbursements, personnel action requests, etc.
5. More effective administrative structures which increase efficiencies and reduce bureaucracy through balanced centralized versus decentralized resources, fewer departments, reduced layers of management, and elimination of redundancies throughout the organization. Utilize external consultants to analyze university administrative operations. Examples include:
- Business Centers: Consolidating business functions (IT, purchasing, payroll, etc.) across academic/business units so that every department does not need separate personnel for these functions yet still have the appropriate level of professional resources available to them whom are knowledgeable about their unit.
 - Academic Administration: Examine the academic department / Chair / College administrative structure to ensure responsibilities are optimally assigned to the appropriate resource while reducing the number of organizational units in the Colleges.
 - Administrative Reviews: Perform cost / benefit analysis and performance reviews on all non-mandatory functions of the university ensuring all services are achieving measurable results warranted given the investment and analyze mandatory functions to ensure they are being undertaken in the most effective manner possible.
6. Policy / Process audits: Examine all university policies and process to ensure they are not adding unnecessary cost and are optimally aligned with the objectives of the institution. Streamline and/or eliminate all redundant processes and revise policies to achieve cost savings (e.g., provide cellular allowances/stipends in lieu of cell phones for employees whose jobs require them).

CBO Top 10 Areas for Administrative Savings and Efficiencies

7. Examine resource allocation models to ensure resources are allocated in the most effective manner possible. Ensure incentives are provided that advance institutional objectives and reward those whom manage their operations in the most cost effective manner possible.
8. Invest in energy savings to reduce long-term operating costs while implementing programs that encourage faculty, staff and students to reduce energy consumption while on campus. Continue to work with ESCOs on energy savings performance contracts where savings can be realized. Install new energy management controls to better manage consumption and usage while utilizing facilities in the most energy efficient manner possible (e.g., consolidate classes in buildings during non-peak times, shut down campus during breaks).
9. Expanded student employment on campus offers the opportunity to reduce labor costs while enhancing affordability and improving student retention and success. While implementing effective student employment requires additional infrastructure for training students and managers, these costs can be offset through reduced labor costs and increased flexibility in managing labor costs.
10. Enhanced business intelligence capabilities to make more effective, informed decisions while implementing predictive models in academic and administrative processes that allow for proactive responses to predicted results. Progress in this area requires the implementation and/or optimization of advanced data systems and tools, expanded organizational capacity for utilizing data for decision making, and increased technical competencies for reporting and analysis.

Productivity, Efficiency, and Cost Containment Report

Chief Information Officers

Abstract

Information technology has contributed to significant productivity advances in many industries over the past 50 years. Education has participated in many of the advances in administrative computing and is now, particularly with the advent of the Internet and the World Wide Web, starting to realize productivity gains in the teaching and learning process.

Never let a good crisis go to waste. Institutional culture that may prevent change in good times may be overcome in bad times. It is often difficult to make the organizational changes necessary to implement consolidation and standardization or to introduce emerging technologies. However, in a crisis people are more willing to do things differently if the budget justification is clear.

CIOs are involved with two distinct levels of productivity, efficiency, and cost containment. First, each institution has a sizable operation of computers, networks, programmers, and support people. Rapid advances in technology force this operation into frequent change cycles to take advantage of continually improving price performance and emerging technologies.

Second, and more significant, is how information technology is applied in other areas of an institution's operations. Collectively, colleges and universities spend billions of dollars each year educating students, conducting research, and providing public service. Even small percentage improvements in efficiency can yield large savings. An institution may spend 5 percent of its budget on information technology but it affects the productivity and efficiency of the other 95 percent.

Organization

The university and college Chief Information Officers (CIOs) have an informal organization that meets on an irregular schedule. Meetings are hosted by a member institution with a typical agenda of information exchange, human networking, discussion of an emerging technology, and statewide communications network management.

Kentucky's public postsecondary institutions are connected to each other by a high-speed data network. This provides economies of scale and seamless, efficient connectivity among the 80 networked locations. This network, the Kentucky Postsecondary Education Network (KPEN), has a very high-speed shared connection to both the commercial Internet and Internet2. Internet2 is the national education and research network operated by the postsecondary education community. It does not allow commercial traffic.

Information Technology Cost/Benefit

If technology costs are always decreasing, then why is my technology budget increasing?

One reason is that investments in technology yield cost savings in other areas of the budget; however, that is no reason to implement technology in anything other than a cost efficient way.

Another reason is that people make up a large percentage of the IT budget and people costs are always increasing.

Unfortunately, many people view information technology as a cost to be controlled rather than an investment to be expanded. In a recent EDUCAUSE study,¹ 317 responding postsecondary CIOs agreed (mean of 3.24 on a 5 point scale with 3 being neutral) their institution was investing in IT as a means to lower administrative costs, they disagreed (mean of 2.83) that the institution was investing in IT to increase revenues, and they also disagreed (mean of 2.58) that it was investing in IT to reduce the cost of education.

The long-term fiscal pressures institutions will face should increase their interest in technology to address their most strategic issues. Information Technology leaders have an opportunity to convince their institutions that technology is an area of investment and not a cost to be minimized in tough budget times.

The 2010 Horizon Report² outlines four information technologies on the horizon for universities in the next few years.

On the near-term horizon — that is, within the next 12 months — are **mobile computing** and **open content**.

Mobile computing, which means use of the network-capable devices students are already carrying, is already established on many campuses, although before there is widespread use, concerns about privacy, classroom management, and access will need to be addressed. At the same time, the opportunity is great; virtually all higher education students carry some form of mobile device, and the cellular network that supports their connectivity continues to grow. An increasing number of faculty and instructional technology staff are experimenting with the possibilities for collaboration and communication offered by mobile computing. Devices from smart phones to netbooks are portable tools for productivity, learning, and communication, offering an increasing range of activities fully supported by applications designed especially for mobiles.

Open content, also expected to reach mainstream use in the next 12 months, is the current form of a movement that began nearly a decade ago, when schools like MIT began to make their course content freely available. Today, there is a tremendous variety of open content and, in many parts of the world, open content represents a profound shift in the way students study and learn. Far more than a collection of free online course materials, the open content movement is a response to the rising costs of education, the desire for access to learning in areas where such access is difficult, and an expression of student choice about when and how to learn.

The second adoption horizon is set two to three years out, where we will begin to see widespread adoptions of two well-established technologies that have taken off by making use of the global cellular networks — ***electronic books and simple augmented reality***. Both of these technologies are entering the mainstream of popular culture; both are already used in practice at a surprising number of campuses; and both are expected to see much broader use across academia over the next two to three years.

Electronic books have been available in some form for nearly four decades, but the past 12 months have seen a dramatic upswing in their acceptance and use. Convenient and capable electronic reading devices combine the activities of acquiring, storing, reading, and annotating digital books, making it very easy to collect and carry hundreds of volumes in a space smaller than a single paperback book. Already in the mainstream of consumer use, electronic books are appearing on campuses with increasing frequency. Thanks to a number of pilot programs, much is already known about student preferences with regards to the various platforms available. Electronic books promise to reduce costs, save students from carrying pounds of textbooks, and contribute to the environmental efforts of paperconscious campuses.

Simple augmented reality refers to the shift that has made augmented reality accessible to almost anyone. Augmented reality used to require specialized equipment, none of which was very portable. Today, applications for laptops and smart phones overlay digital information onto the physical world quickly and easily. While still two to three years away from widespread use on campuses, augmented reality is establishing a foothold in the consumer sector, and in a form much easier to access than originally envisioned.

It is difficult when institution budgets are declining to make investments in new systems even when they have attractive ROI. However, operational changes do not always require new funding and outsourcing and cloud computing projects can often be paid for by the vendors. And if capital can be found, now is the time to implement major projects. Prices are down, vendors are hungry, and your institution will be in a better position as it comes out of the budget crisis.

Productivity, Efficiency, and Cost Containment Examples contributed during a meeting of the CIOs

- Examples within the Information Technology Operations
 - Explore new and expanded opportunities for joint purchases to achieve economies of scale. These should include software, hardware, library electronic databases, disaster recovery services, network and Internet services.
 - Centralize servers and implement server virtualization.
 - Desktop virtualization for student labs and institutional staff.
 - Stock spare components locally and relax hardware service contracts to next business day.
 - Continue to expand wireless access. Wireless infrastructure is now paying off with expansion at no cost.
 - Scale IT infrastructure and services to optimum levels. Move storage, servers, email, office applications, etc., to the Cloud.
 - Turn off old technologies. Standardize platforms to simplify, leverage support, scale procurement, and improve interoperability.
 - Realize green savings through desktop and server virtualization and other energy efficiencies.
 - Do succession planning. As the age of IT staffs increase and the economy improves, there will be a rush for the doors.
 - Explore Open Source software to replace vendor software for operating systems, middleware, and applications.

- Coordinate disaster recovery plans among institutions, reciprocating computer and network capacity rather than paying vendors.
 - Use SIP for telephones rather than PRI.
 - Co-locate datacenters on the KPEN network to reduce local loop costs.
 - Outsource datacenter with vendor build-to-suit plans and buy capacity by the spoonful.
- Examples enabled by Information Technology in Other Institutional Departments
 - Cultivate new revenue through expanded online learning.
 - Improve graduation rates with better student retention systems that provide early warnings to students and advisors.
 - Utilize data analytics to inform policy.
 - Integrate information technology fully into the institution strategic plan to help achieve institution goals like increased retention, shorter time to degree, increased revenue, improved decision making, and better operating efficiencies.
 - Reduce paper and printing costs through imaging systems, shared and managed print services. Stop printing publications that are available on the web.
 - Implement lecture capture systems like Tegrity.
 - Implement eProcurement Systems.
 - Establish an Innovation Fund to finance high ROI projects with the savings going to replenish the fund.
 - Re-engineer business operations like payroll, accounting, and student services.
 - Expand electronic services both to students and staff and for internal processes.
 - Joint procurement agreements with other institutions and consortia for desktop computers and other items.
 - Move to student purchased mobile devices (smart phones, iPads, netbooks, etc.) and reduce university costs.
 - Increase the use of hybrid classes to maximize space utilization.
 - Move to eTextbooks.
 - Don't develop course materials that are freely available as open resources like MIT courses and Kentucky Learning Depot resources.
 - Recognize the competition in the marketplace. Create a new institution that operates like the University of Phoenix.
 - Recognize the needs of adult students. Deliver education ondemand.
 - Measure quality by measuring the output. Measure competencies.
 - Expand the use of the Virtual Learning Initiative model from KCTCS for the development and delivery of courses.

¹ Goldstein, Philip J. Responding to Recession: IT Funding and Cost Management in Higher Education (Research Study 4, 2010). Boulder, CO: EDUCAUSE Center for Applied Research, 2010, available from <http://www.educause.edu/ecar>.

² Johnson, L., Levine, A., Smith, R., & Stone, S. (2010). The 2010 Horizon Report. Austin, Texas: The New Media Consortium.

Productivity, Efficiency, and Cost Containment Report

Distance Learning Steering Team

Abstract

Members of the **Distance Learning Steering Team** (DLST) have compiled a short list of cost savings measures in their institutions. The greatest of these was achieved by cooperatively purchasing software, a process coordinated by the Kentucky Council on Postsecondary Education (CPE).

In and of itself, distance learning does not usually directly reduce costs. In fact the opposite may be true. It does, however, increase access. It also can reduce indirect costs to the student by eliminating travel to campus, allowing greater freedom to work, and reducing course costs in some special areas.

Organization

The **Distance Learning Advisory Committee** (DLAC) is responsible for creating committees and work groups which are charged with the responsibility for planning and recommending policies and procedures for the operation of the Kentucky Virtual Campus (KYVC). The Committee also addresses the coordination of policies, programs, support services, and infrastructure in support of distance education across all Kentucky postsecondary education institutions.

The **Distance Learning Steering Team** (DLST) is an *ad hoc* work committee reporting to the DLAC on logistic and technical matters and matters concerning distance learning in the Commonwealth.

The DLST is composed of distance learning professionals from the universities and agencies; additionally, representatives from Kentucky Virtual Adult Education (KYVAE) and Kentucky Virtual Library (KYVL) participate. Ideas, techniques, and solutions are shared between organizations. A common, statewide approach is often taken to many regional distance learning issues and concerns.

Introduction to Distance Learning

Distance learning involves any of a number of technologies that allow students to participate in education without being in physical proximity of the instructor. Some examples include Interactive Video Classrooms (IVS or ITV) - specially designed interactive video classrooms that facilitate learning between locations; KET ED Instructional Resources – courses broadcast on KET KY or as streaming video online via KET ED; and online courses - course material is available online, and students communicate with the instructor and their classmates through a variety of online tools.

For the student, distance learning is often about more than distance. For many, access to education is often limited more by time than by distance. Students who work or have other obligations simply are not available at the times when face-to-face (F2F) classes are offered.

Distance Learning Costs

Contrary to the understanding of many, distance learning is not being used as a method to reduce costs, but to provide increased accessibility to education. In fact some studies have shown that distance education can be considerably more expensive.¹

It is important to understand the time, expertise, and technology required to develop quality distance learning courses. Not only do colleges and universities pay the additional costs for the development of a new curriculum, but they also must hire computer programmers, Website developers, videographers, site administrators, distribution clerks, online library resource personnel, specially trained counselors, and technical support staff. On top of that, they must maintain the computer systems, teleconferencing systems, and other equipment necessary to deliver distance learning to the students.

Do students object to the price? Not really. Most students realize that distance education gives them access to programs that they could not pursue without distance delivery methods. The student thus has access without having to move near campus or leave their job. Students also realize that distance education programs also eliminate other costs and fees, not to mention travel to and from campus, parking, and the need to live near campus. Having to pay more for distance learning courses is an opportunity cost that is often lower than the total outlay for pursuing a traditional degree.

One distance learning questionnaire asks students these questions:²

1. How many miles do you drive to and from campus?
2. What is your car's gas mileage (in miles per gallon)?
3. What other costs are associated with your commute to/from campus (include daily parking fee, public transportation, etc.)?
4. What is the cost of child care for time spent away from home studying?
5. How many minutes do you spend commuting to and from campus?

That said, there are economies of scale available in distance education (but these usually have up-front costs). There is also compelling evidence for use of distance education in teacher training as a method of reducing costs. Teacher professional development has been shown to be less costly when delivered through distance education. Distance education also provides an opportunity for cost shifting. Distance education often allows some costs to be shifted from the public sector onto participants/learners themselves (and/or their communities). While this reduces public expenditure, it may give rise to equity issues.³

Cost Containment Examples from DLST Member Institutions

- Look for alternatives to complete textbooks. Publishers now offer eBooks with the flexibility to purchase only the needed chapters of books.

- Move to the use of Open Educational Resources. There is a growing marketplace for open textbooks and other free educational resources. The Kentucky Learning Depot is a searchable statewide repository for digital learning content. It is federated with similar repositories in Florida, Georgia, and North Carolina. Kentucky has just begun efforts with the Washington Community College System and funding from the Lumina and Gates Foundations to develop Open Course materials. Likewise the Florida Orange Grove has invited Kentucky to join a multistate effort to coordinate the development of textbooks for high enrollment lower division classes.
- Enter into course redesign projects. Costs have been cut in every course redesign project implemented by the National Center for Academic Transformation. Over 100 projects in a cross section of academic disciplines show improved student learning outcomes and increased capacity.
- Contain costs for distance learning operations through outsourcing of Blackboard infrastructure services including hosting and network support plus collaborative strategies for license renewal. The first Blackboard agreement (FY06-10) saved Kentucky's public institutions \$3.6 million in license costs plus savings for K12 licences and hosting. The current Blackboard Agreement (FY11-13) is estimated to save an additional \$1.4 million. Replicate the successful Blackboard model across other technology procurements.
- Increase the use of Interactive Television (ITV). ITV contains costs by providing quality face-to-face instruction at regional centers without incurring costs to put faculty on the road and by allowing classes at multiple locations at the same time thereby increasing enrollment. New HD systems no longer need to have facilitators/staff/students sit and monitor the system as in the past. At some regional campuses, as much as 50 percent of courses are delivered using 2-way and hybrid delivery. Access in rural areas is not feasible without ITV.

Significant collaboration and professional development takes place over 2-way video. Staff meetings from desktop units and the savings in travel cost for face-to-face conversation is significant. Two-way links with the University of Kentucky Hospital to view an operation with local hospital staff observing on a wide screen is possible. Mobile units can move from classroom to classroom reducing equipment costs and adding flexibility.

- Incorporate the impact of online learning into the capital construction process. One in four students is now taking at least one online class. Over 10 percent of credit hours are generated online, 20 percent at some institutions. These rates are growing at about 25 percent annually. As more students study outside of the classroom there will be less demand for classroom space.

- Expand the use of hybrid classes that combine both traditional face-to-face classes with the online delivery of content thereby reducing the demand for classroom space. A recent U.S. Department of Education study⁴ indicates that hybrid classes produce higher learning outcomes than online or traditional classes.
- Continue the cost saving consortial purchasing of electronic databases through the Kentucky Virtual Library.

¹ Cost of Distance Education: A Florida Experience, The [NACTA Journal, Dec 2004](#) by Wysocki, Allen F, Sterns, James A, House, Lisa A, Fairchild, Gary F, Thornsby, Suzanne.

From 1998 to 2002, the faculty of the Food and Resource Economics Department, College of Agricultural and Life Sciences, University of Florida, taught 212 courses on campus and an additional 19 courses via distance technologies. Using data from these experiences, the authors estimate the average additional costs associated with distance education as compared to on-campus courses to be \$16,631 per course and \$1,661 per student taught. Data limitations are discussed and estimates of costs will vary, depending on assumptions made about what costs should be included in the analysis; and quantifying the costs of distance education ultimately must be evaluated within the broader context of potential benefits and trade-offs across departmental and college program priorities.

² The SUNY Learning Network: Supporting Award-Winning Distance Education at SUNY Campuses;
http://sln.suny.edu/gs/gs_costcalculator.shtml.

³ Trucano, Michael. 2005. Knowledge Maps: ICTs in Education. Washington, DC: infoDev / World Bank.

⁴ Evaluation of Evidence-Based Practices in Online Learning: A Meta-Analysis and Review of Online Learning Studies
<http://www2.ed.gov/rschstat/eval/tech/evidence-based-practices/finalreport.pdf>.

Kentucky Educational Purchasing Cooperative

Introduction

This document provides several bullet points regarding best current cost containment practices and ideas to improve productivity and efficiency within Kentucky State Universities. It also includes a brief summary of various Information Technology systems that can be used by Purchasing Departments to better serve their organizations. It has been prepared by the Kentucky Education Purchasing cooperative whose members include Purchasing Directors and staff professionals at the eight state universities and KCTCS.

Current Cost Containment /Cost Savings Activities

- Energy Savings Performance Contracts
- Buying natural gas from Stand Energy Corp \$200K savings at EKU
- Payments on p-card to increase rebate
- Leasing computers with planned replacement
- Managed print services or centralize copier contract.
- Office Supply contract – all of us on one contract.
- Outsource hosting of ERP
- VOIP phone system

Additional Ideas

- Use Value Analysis and any other method to eliminate waste.
- Use spend analysis
- Supplier Performance Evaluations
- Implement quality measures and standards
- Revise the budgeting process so all funding for capital equipment, software systems and other large dollar purchases go into a centralized budget. Therefore savings achieved will not be wasted by end user departments.

- Demand management - An example of this is currently we may buy 1.000 different kinds/types/styles of ink pens. If we limited it to 3 or 4 we would reduce costs. The same idea goes for printers and toner cartridges and many other things. Instead of letting everyone get whatever they want we limit them to standards that are based on quality and value. An eProcurement system would help with this, however we could also have our office supply vendors automatically ship the standard pen no matter what the end user picks.
- Eliminate all spending based on budget deadlines, spending should be based on proven need.
- Work with suppliers to determine if cost savings can be achieved through scheduling of purchases (JIT), minor adjustments to specifications or other factors determined through win-win negotiations.
- Require vendors to self audit transactions based on the terms of their contract.
- Improve in the area of preventative maintenance.
- Vendor management which includes a web site for end users to provide feedback regarding the vendor's performance similar to the five star system used by on-line shopping sites.
- In another state one university is requiring all of their vendors to offer an early payment discount. The vendors register online and are presented with a drop down menu with 22 different options for early payment discount. They have the highest discount near the top of the list 5%N15 and the least favorable (to the university) at the bottom of the list 1%N30. Some vendors choose the 5% discount.
- One university created a portal on their web site where the vendors can enter their Tax ID and see what the payment status is instead of requiring an employee to answer a phone call and look up information.
- Some schools are coordinating bulk purchasing. An example given was hand sanitizer, it was \$104.10 in a catalog, \$93.69 on contract for single cases and \$51.01 when they got a quote for a bulk purchase.
- Haworth a furniture manufacturer has a product that goes on the floors in offices that helps heat and cools the space. It only heats or cools the areas near the floor where people are. They say it reduces heating and cooling costs significantly. It sounds like something that would work well in older buildings.

- Form self insurance cooperative.
- Increase efforts in the area of fraud detection and elimination.
- Alternative work arrangements.
- Use open source software in place of Microsoft Office and other commercial software.
- Investigate the use of companies that claim to save us money by taking on all of our maintenance contracts. If they can save us money, can we form our own group and save by self insuring to pay time and materials for maintenance instead of buying maintenance contracts.

Technology for Purchasing

There are three or four categories or Information Technology solutions that can provide a positive return on investment to the purchasing function and ultimately to the universities they serve. Automation in sourcing, e-procurement (Procure-to Pay) and contract management stand out as systems purchasing professionals should be evaluating. These systems are capable of providing several benefits that can help cut process time and cut the costs of goods and services necessary to operate our programs and facilities.

Automation of sourcing can be widely interpreted but it generally turns what used to be a combination of card and paper vendor files and a lot of paper bid and RFP documents into an electronic Internet based process. Some of us have reached the level of posting pdf bid and RFP documents on a web site, others have gone the next step to include vendor registration and electronic distribution of the documents and any related addendums. Beyond that systems are available that help Purchasing Department personnel collaborate with their end user departments electronically to create the bid and RFP documents. Then they also provide an Internet site for bidders to submit bids and proposals that get organized into spreadsheets or other documents ready for easy comparison by evaluation committees.

E-procurement also called Procure-to-Pay (P2P) has the most potential to help our university Purchasing Departments create cost savings and process efficiencies. These systems automate the requisition, Purchase Order, Receiving Document, Invoice and Payment process. It provides a highly superior user interface for departments and also allows Purchasing Department professionals more time to work on cost reduction activities instead of processing orders. In several states multiple universities are working together to use one e-Procurement system. This helps them do a better job sharing contracts and therefore benefit through the economies of scale. Universities with different ERP systems can share one e-procurement system. Reporting capabilities of these systems are far better than what we currently work with. The improved data collection capabilities will also help us achieve cost savings as a group.

Another new development in the area of Purchasing Information Technology is the development of Contract Management Software. Each university currently has hundreds of different contracts as well as access to even more state contracts and thousands of GSA contracts. Just keeping track of all these contracts can be a daunting task. There are discounts to keep track of, contact information, renewal dates and numerous other terms specific to each contract often needed at a moment's notice. Some ingenious programmers recognized that need and have developed systems to keep good track of our contracts and that even send us email reminders about contract renewal or end dates. Some of us have developed our own Excel spreadsheets or Access databases to keep track of these contracts, but most of us certainly have not put the time or possessed the skills required to create the quality and functionality available in commercial off-the-shelf systems.

Current Best Practices for Purchasing by KEPC Members

- Professional development through training and certification of employees
- Collaboration with colleagues through professional organizations such as the National Association of Educational Procurement, Institute for Supply Management, National Institute of Governmental Purchasing and the Kentucky Educational Purchasing Cooperative. These groups have periodic meetings and conferences, as well as, listserve groups and groups on LinkedIn.
- Participation in Group Purchasing Organizations such as KEPC, E&I Cooperative, U.S. Communities, Provista, State Contracts, GSA Contracts and several others.
- Clear and easily accessible Purchasing Policy.
- Procurement card program based on Pareto's Law that would reason that 80% of the transactions make up 20% of the dollars spent and vice versa 20% of the transactions make up 80% of the dollars spent.
- Standardization
- Quality defined by specifications.
- Competitive solicitations
- Social responsibility in purchasing including efforts to include minority and women owned businesses in our supply chain and green or sustainability based purchasing.
- Campus training on Purchasing policy and on use of computerized systems.
- Annual goals and objectives which include measurable outcomes.

- Continuous business process improvement.
- Outsourcing and insourcing.
- Use of technology, such as ERP systems for on-line requisitioning, document imaging, web planrooms for bid and RFP distribution, bar codes for inventory, emailing Purchase Orders and other communications, reverse auctions and eProcurement.
- Travel management and contracts.

The members of KEPC have always been focused on getting the best value for dollars spent on goods and services procured for our universities. The group has been in existence since long before most of the current members started employment at our respective universities and is a pretty close knit group. We are ready to work together to do whatever we can to help our schools improve productivity, efficiency and achieve cost containment objectives.

Productivity, Efficiency and Cost Containment Report

Kentucky Public University Business Officers (KyPUBO)

Introduction

This report was prepared by the members of the Kentucky Public University Business Officers (KyPUBO) group whose responsibilities primarily relate to the financial services and business operations at the eight state universities and KCTCS. This report is a compilation of some of the current practices that have been implemented recently that reduce costs and increase productivity and efficiency. It also includes ideas or opportunities currently being explored that have the potential to further reduce costs and streamline business operations through the innovative use of technology, increased collaboration and other creative solutions.

Current practices that increase efficiency, productivity and reduce costs:

Purchasing/Accounts Payable

- Streamlined procurement process by increasing the use of purchasing cards, where feasible, while maintaining necessary control and compliance with contracts. Significant savings have been achieved by using purchasing cards for transactions that do not require the more costly procure-to-pay cycle. Using purchasing cards for these transactions, frees up the time of the purchasing professionals to concentrate on higher value added procurement functions. In addition, universities have earned higher rebates as a result of the increased card usage.
- Reduced the number of times a week/month that accounts payable checks/ACHs are issued. The reduction in the frequency of payment runs has reduced labor costs, banking service fees and other transactional costs related to accounts payable disbursements. In addition, this improves cash management.
- Achieved significant savings by increasing the percentage of vendor and students refund payments made electronically vs. checks resulting in a significant reduction in the incremental costs associated with check processing (check printing, mailing, positive pay and other fraud prevention costs, account reconciliation time etc.). Employees are reimbursed for travel and other expenses through direct deposits and, typically, notified of the deposit via email.
- Implemented desktop/laptop computer hardware and software standardization plan, including comprehensive replacement programs for faculty, staff and students (labs). These programs have yielded substantial savings by reducing the number of computer vendor contracts, lower hardware and costs, reducing maintenance costs and other support costs. Utilized both exempt financing and leasing programs to provide the latest technology through the replacement program.

Treasury management (debt, cash and investment mgt/banking services etc.)

- Agency bonds are now issued under a new General Receipts Bonds Trustee Agreement instead of separate Housing and Dining bonds (H&D) and Consolidated Educational Buildings Revenue Bonds (CEBRB) indentures. The General Receipts Bonds have resulted in savings from lower interest rates, the elimination of reserve requirements, more flexible debt instruments beyond fixed rate bonds and lower overall debt management related administrative costs.
- Refinanced H&D and CEBRB agency bonds with General Receipts agency bonds resulting in significant present value savings from lower future debt service payments as well as additional benefits related to General Receipts Bonds mentioned above.
- Negotiated cost plus merchant services agreement in lieu of blended rate agreement resulting lower overall merchant fees and the ability to achieve additional savings as lower cost debit card activity increases and higher cost credit card activity decreases.
- Eliminated all employee and student check cashing services. Cash can be obtained at a bank branch on campus, or nearby banks, as well as ATMs on campus.

Student services/billing and collections/payment plan mgt

- Utilized the Ky. Department of Revenue's collection program to increase the collection rate for uncollectible student/other accounts. Early experience indicates the Ky. DOR will be able to collect a larger percent of the overall outstanding balances than the current private collection firms that the universities use. If this success can be achieved for all of the universities, the savings would be significant.
- Several institutions outsourced their student refund processing to a third party vendor resulting in a reduction in the cost of processing refunds. Other institutions are also achieving savings by utilizing their ERP/self-service web based systems to process student refunds. Under both the internal and outsourced processes the majority of student refunds are now issued electronically to student bank accounts, or on a pay card, resulting in reduced processing costs and increased student satisfaction.

Business operations/service depts.

- Outsourced managed printing services to consolidate all printing/copying/fax/scanning services on campus under a single third party contract. The total cost per copy was significantly reduced by consolidating under a single contract, eliminating high cost desk top printers, multiple hardware and maintenance contracts and other administrative costs associated with non-centralized printing.
- Outsourced numerous other operations including, but not limited to: bookstore, food services/vending, laundry services, student refund processing, student billing and collections, student installment payment plans (credit card processing fees were passed through to students through third party payment plan), student housing (privatized), grounds/custodial/trades, parking services, printing/copying/imaging services, IT related services-cloud technology (student email accounts etc.).

- Required auxiliaries and other departments that generate external revenues to become more self supporting by generating additional external revenues; thereby eliminating or significantly reducing the general institutional funding for these operations.
- Created travel management services program, including the use of a travel agency that “guarantees” the lowest price airfare travel, resulting in a reduced travel costs and administrative costs related to travel processing. Utilized ERP system/workflow to electronically route employee travel authorizations and travel reimbursement documents.

HR/Payroll processes/staffing/benefits etc.

- Restructured the University’s administrative organization by consolidating or eliminating colleges, programs, and academic and non-academic departments. The savings from reduced personnel and operating costs were redirected to other programs and institutional priorities.
- Revised vacation leave policy for faculty and staff to reduce length of time to utilize, resulting in one time reduction to vacation liability recorded. Will reduce future terminal vacation payouts.
- Implemented Cliff vesting for employees hired after January 1, 2010 for retirement benefits. Estimated multi-million dollar annual savings within 5 years.
- Implemented procedure to capture employer credit for HIRE Act resulting in significant savings.
- Reduced or eliminated tuition remission benefit for employee spouse and/or dependents.
- Switched to self insurance for health, dental, workers compensation and other benefit programs resulting in a significant reduction in average annual benefit costs. Launched numerous programs targeted at increasing the overall health of employees and a reduction in health insurance claims. Programs include free health assessments, weight loss, smoking cessation, diabetes management and other wellness program activities.
- Utilizing employee self service portal that enables employees to view their payroll statements and W-2s, view and modify benefit enrollment information and plan selections, change address and bank account information, etc.
- Utilizing ERP, workflow and web based systems to manage the majority of employment cycle processes from job searches through termination/retirement electronically including: web based application/hiring approval process, initial employment documents (I-9, tax forms, contracts, etc.), annual performance reviews, salary adjustments, transfers and terminating documents.
- Using ERP/web based systems/workflow and electronic time clocks to capture exempt absence records (leave/vacation etc.) and hourly time input. This data is entered directly into HR systems, or captured through electronic time clocks via employee ID cards/tags. These processes have reduced payroll processing “paperwork” and increased the accuracy of the payroll data.
- Using online/workflow to request and approve employee leave/vacation requests. Employees are notified of the decision via email.
- Utilizing Common Remitter (VRSCO) for benefit payments.
- Using online time and effort certification reporting, primarily related to sponsored research. Online effort certification has reduced compliance risk and eliminated the inefficiencies related to the former paper driven process.

- Changed from employer provided cell phones for business use to a taxable stipend that pays for the estimated business use of the employees personal cell phone/data plan and internet access where applicable. This program eliminates a significant portion of the administrative cost related to business provided cell phones. Required annual renewal of the stipend each year, to ensure employees receiving stipend still need to receive one based on their current job duties.

Using technology to reduce paper and streamline business operations

- Utilizing employee and student self-service portals whenever possible to reduce administrative costs by allowing employees and students to enter and maintain their specific information. This reduces administrative time and enables employees/students to that the system uses to process transactions,
- Using ERP systems/electronic workflow functionality to electronically route documents/transactions for approvals based on business processing rules. Electronic workflow reduces processing time, improves accuracy of the transactions and eliminates paper documents and the associated costs related to “lost documents” and document retention.
- Paperless student billing, employee direct deposit, check stubs, leave reporting, employee W-2, student refunds, accounts payable, course catalogs etc.
- University email recognized as official form of communication (reduces/eliminates paper communications and internal mail distribution costs/postage expenses).
- Implementation of Workflow to document electronic approval/authorization of documents, coupled with campus-wide document imaging project.

Facilities/energy management contracts

- Realized savings by purchasing natural gas at favorable prices and storing the gas vs. buying on spot market as needed.
- Leveraged energy savings to pay for new, energy-efficient equipment, infrastructure improvements and other technology improvements through energy savings performance contracts with ESCOs. The energy projects were financed with tax exempt leases which are repaid using the annual guaranteed energy savings.
- Realized significant recurring savings through improvements to campus operations, such as re-engineering our work order process, project estimating, and waste collection and disposal systems; eliminating supervision layers; implementing central energy management and preventive maintenance systems; purchasing labor and cost-saving equipment; and instituting productivity standards for maintenance crews.

Other

- Renegotiated federal government rate used to offset the costs of federally funded research

Additional ideas/opportunities to consider:

- Continue reviewing the cost benefit of outsourcing services while maintaining the desired service levels, institutional oversight/control and system integration where applicable.
- Will also increase the development of more employee self-service tools and resources.
- Implementation of e-procurement solution to reduce maverick spending and increase and improve negotiated contracts. Significant net savings will be achieved through increased use of existing contracts.
- Implement comprehensive web based e-commerce solution to standardize web based merchandising, seminar/training registration processing, and other functions that require cashiering/credit card processing payment gateways that are fully integrated with the institutions ERP system and customizable web storefronts using common underlying design and functionality. This will eliminate redundant systems and strengthen PCI compliance.
- Review all university benefit programs and consolidate benefit programs/coverage for benefits where feasible and cost savings could be achieved while maintaining desired service levels.
- Issuance of joint lease financing RFPs to leverage better rate proposals for combined leasing activity/volume.
- Streamline cash management process regarding transfers of monies to/from state. Utilize ACH transfers instead of wire transfers to transfer funds from the state treasury to the universities. This would result in a significant reduction in banking costs for the universities and the state.
- Require mandatory direct deposit/electronic payments for all disbursements (student refunds, payroll, and vendors).
- Consolidate purchasing card contracts for all schools. Current contracts are generally based on tiered rebate structures that pay higher % rebate rates as the amount purchased increases. The combined purchasing card volume may yield a higher rebate for all of the participating schools.
- Analyze the cost benefit of increasing the minimum threshold for insurable assets and self-insuring assets under the threshold value. Analyze the cost benefit of state provided vs. privatized insurance programs.
- Establish state contract for employee background checks. All agencies have to do these for new employees; therefore, a state contract may be a more cost effective way of managing this legislative requirement.

**Kentucky Higher Education Risk Managers
(KHERM)**

**Potential Cost Savings Measures in Insurance Procurement
by the State Fire & Tornado Fund (SF&T)**

According to the SF&T, all state buildings and agencies, including public universities, are required to insure their property (buildings and contents) through the State Fire & Tornado Fund (SF&T), a Division of the Finance & Administration Cabinet. The statute authorizing the SF&T (KRS 56.070) does not appear to support this requirement. It is our understanding that the proceeds from the Underwriting Profits of the Fund go to support the State Risk Division and then if the fund exceeds \$5 Million the excess goes to the General Fund. Again, our understanding is that these funds are spent at the discretion of the legislature and not necessarily on Risk Management issues. The Office of State Risk and Insurance needs to be supported by a State Budget Line, not by the proceeds of this Property Insurance Fund which is funded by University funds to the largest degree by far. It's as if universities are being taxed for being participants in this particular Insurance Fund.

Potential Cost Saving Issues

- Premium rates are determined by the SF&T using outdated Insurance Services Office (ISO) rates and then severely discounted to make them more palatable. State agencies, other than universities, are relieved of this process as the amount of their premium is included in their budget as a line item. This also relieves any incentive for loss prevention or other cost containment measures. Insurance deductibles to the state agencies and the state's deductible with the commercial carrier should also be reviewed.
- Differences in exposures, all being insured under one policy make it difficult for underwriters to accurately assess the risk. Mixing higher education exposures such as research and hospitals with prisons and parks probably increases the cost of both exposures.
- We believe that the agent/broker selection and insurance purchasing process could be improved, with several minor changes. The property coverage should be placed on a "fee" basis rather than a "commission" basis as is currently done. Commissions can be made up of three parts, commission to the retail broker, Commission to the Wholesale broker, if one is used, and contingent commissions, paid by the insurer to the broker based on volume or profitability.

- In our opinion, loss prevention should be improved and, over time, can be a material cost saving initiative. The SF&T has made some small improvements in loss prevention in the last several years, but the program needs a complete overhaul. Currently, loss prevention activities are limited to high value buildings, selected on a statewide basis. There is very little follow up done on recommendations made by the loss prevention engineer. Good loss prevention reduces losses and the associated costs and can result in reduced insurance premiums.
- The building valuation process should be improved. State appraisers assign a value to each of the state's 7,000+ buildings. On several occasions, at the time of loss, buildings have been found to be severely undervalued. The "blanket limit" of the insurance policy is intended to cover any shortfall but the undervaluation of many buildings could result in inadequate insurance coverage if there are multiple buildings/locations impacted by one peril. Undervalued buildings within the self insured retention will result in reduced recovery at the time of loss.
- Restrictive rules promulgated by the SF&T along with an outdated policy wording document that the SF&T uses to adjust losses cause untold hours of work and expense for the universities in the settlement of losses and the potentially reduced amounts paid by the SF&T in loss reimbursements. The wording of the policy covering the first \$500,000 of loss is completely different than the policy covering anything over \$500,000, resulting in many potentially reduced recoveries. KRS 56.100 mandates that the state assume a maximum of \$500,000 self insured retention. A \$1 or \$2 million retention would be more efficient and reduce premium paid to insurers.
- Other University groups have come up with innovative ways to operate a risk pooling arrangement, and save substantial premium and loss dollars. The Midwest Higher Education Compact (MEHC) is a good example. This is a multi-state compact that operates a property risk pooling function utilizing a captive insurer to fund the retention and then purchasing commercial property coverage excess of the retention.

Potential Solutions

- 1) Keep the SF&T Fund intact, but have the State Risk & Insurance Department be assigned a Budget by the General Assembly. This budget would both, adequately support the mission of the Department and provide all of the necessary funding to pay the entire Property Premiums annually of all of State Government (including all of the State Universities). This would adequately protect the Property Assets owned by the State's Taxpayers. Basically, the SF&T Fund would insure for all property coverage and pay for all of the premiums for all State Agencies and State Universities.
- 2) Appoint a “Governing Committee” of State F&T Fund Participants / Risk Managers and charge this Committee to direct the full administration of the State F&T Fund. The Fund would become a Mutual Insuring Group for all if the Property Participants/State Agencies and no longer sharing the proceeds of the Fund itself with anyone outside of the Mutual Insuring Group. (With this Option, each University should still be provided with the State Budget Funding, just as with any other State Agency, to be able to pay for this coverage.)
- 3) Allow the Universities to have the choice (without consequence) to be able to use or to not use the State F&T Fund to insure their Buildings and Contents. If a State University would be able to obtain better coverage and/or a better price for their coverage thru the open insurance marketplace, then they should be allowed to do so. For all of the many lines of coverage offered by the State Risk Division, the Property Insurance Fund (F&T Fund) is the only line of insurance for which the Universities do not have that choice.

There are legislative and policy hurdles to overcome to accomplish the changes discussed above. Eliminating some of the systemic inefficiencies in the current process would potentially benefit all concerned. Members of the Kentucky Higher Education Risk Managers group would be happy to discuss further. All of the above issues have been discussed in great detail with several administrations of the State Fire & Tornado Fund.

Sept 3, 2010

The Council on Postsecondary Education is charged with leading the reform efforts envisioned by state policy leaders in the Kentucky Postsecondary Education Improvement Act of 1997. The Council has multiple responsibilities to ensure a well-coordinated and efficient postsecondary and adult education system. Among its many responsibilities, the Council:

- Develops and implements a strategic agenda for the postsecondary and adult education system that includes measures of educational attainment, effectiveness, and efficiency.
- Produces and submits a biennial budget request for adequate public funding of postsecondary education.
- Monitors and approves tuition rates and admission criteria at public postsecondary institutions.
- Defines and approves all academic programs at public institutions.
- Ensures the coordination and connectivity of technology among public institutions.
- Collects and distributes comprehensive data about postsecondary education performance.
- Licenses all nonpublic, degree granting colleges that operate in the state.
- Administers the state's Adult Basic Education program and GED Testing Service.

The Council on Postsecondary Education is Kentucky's statewide postsecondary and adult education coordinating agency charged with leading the reform efforts envisioned by state policy leaders in the *Kentucky Postsecondary Education Improvement Act of 1997*. The Council does not discriminate on the basis of race, color, national origin, sex, religion, age, or disability in employment or the provision of services, and provides, upon request, reasonable accommodation, including auxiliary aids and services necessary to afford individuals with disabilities an equal opportunity to participate in all programs and activities.

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THE SIX GOALS OF HB 1

1 A seamless, integrated system of postsecondary education strategically planned and adequately funded to enhance economic development and quality of life.

2 A major comprehensive research institution ranked nationally in the top 20 public universities at the University of Kentucky.

3 A premier, nationally recognized metropolitan research university at the University of Louisville.

4 Regional universities, with at least one nationally recognized program of distinction or one nationally recognized applied research program, working cooperatively with other postsecondary institutions to assure statewide access to baccalaureate and master's degrees of a quality at or above the national average.

5 A comprehensive community and technical college system with a mission that assures, in conjunction with other postsecondary institutions, access throughout the Commonwealth to a two-year course of general studies designed for transfer to a baccalaureate program, the training necessary to develop a workforce with the skills to meet the needs of new and existing industries, and remedial and continuing education to improve the employability of citizens.

6 An efficient, responsive, and coordinated system of providers that delivers educational services to all adult citizens in quantities and of a quality that is comparable to the national average or above and significantly elevates the level of education of the adults of the Commonwealth.

